



# STUDY OF VARIOUS DETERMINANTS AND ITS INFLUENCE ON FINANCIAL LITERACY: AN EMPIRICAL STUDY IN THE CITY OF AHMEDABAD

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## ABSTRACT

Financial Literacy has become a priority area across the world in recent years. In a complex and globalized marketplace, a myriad of products is offered in the financial market, and the accessibility of products has also increased. This has made it imperative for individuals to be well equipped with the necessary financial knowledge and awareness to use their financial resources in an optimum way. The study examines the financial literacy of the people by using a questionnaire developed by self-validated scales of determinants of financial literacy. The major findings of the data interpretation and analysis reveal that there are major six determinants that have very strong influence on level of financial literacy. The present study offers the first ever comprehensive insight into the financial literacy of the Ahmedabad region.

**KEYWORDS:** Financial Attitude, Financial Behavior, Financial Knowledge, Financial Literacy, Financial Planning

## 1. INTRODUCTION

In today's financial world, the importance of financial education is globally acknowledged as being a key component of the financial well-being of an individual as well as the financial stability of a country. Nowadays, consumers are entering a risky marketplace where they are confronted with a wide array of financial products and services. The baffling choices in these products and the clever advertising often mystify consumers and prevent them understanding the fine print of the complex information and the downside risk associated therein.

The situation becomes more complicated due to technological innovations that have resulted in an explosion of new products. This increases the responsibility and risk of households in making financial decisions. The need arises to equip financial consumers with basic financial knowledge and skills to enable them to navigate the complex range of products and services and select those that best suit their needs and resources. The increase in market complexity, exposure to advanced financial technology like mobile and online payments, the increase in the financial responsibility of individuals due to the shift from defined pension plans to contributory plans, and the concern for retirement planning and healthcare needs make it essential to understand the financial concepts and make judicious decisions regarding financial transactions.

Financial literacy enhances the knowledge and builds confidence among households to manage their financial affairs towards a secure financial future. Research shows that financial literacy has a positive spillover effect on the economy. People who can accurately undertake simple calculation and are knowledgeable about inflation and risk diversification tend to plan more for their retirement (Lusardi & Mitchell, 2009; Hastings & Mitchell, 2011; Lusardi & Mitchell, 2011). The findings of research conducted by Klapper and Panos (2011) reveal that financial literacy is positively and significantly associated with retirement planning. Financial unawareness and the resultant behaviour lead to negative financial outcomes that have an adverse effect on an individual's financial well-being.

A lack of knowledge of key economic concepts and skills causes individuals to enter into suboptimal financial decisions (Hastings & Mitchell, 2011). People with little financial knowledge hold wrong opinions about financial concepts, and, as a result, make erroneous financial decisions (Chen & Volpe, 1998). They participate less in the stock market (Rooij, Lusardi, & Alessie, 2007), have poor borrowing behaviour, accumulate less wealth with no optimal plans for retirement (Lusardi, 2008; Lusardi & Mitchell, 2008; 2009); and are more likely to enter into high-cost transactions (Lusardi & Tufano, 2009) relative to their financially literate counterparts. The protection of financial consumers also demands financial literacy as it enables people to be aware of the risks inherent in financial products and control their greed for high returns.

## 2. LITERATURE REVIEW

Kamal Gupta et al. (2014), assessed the level of financial literacy amongst 87 micro Entrepreneurs of Kangra district of Himalaya Pradesh based on record keeping, various institutional awareness, savings, investment plans, savings management and various loan products. It is found that most of respondents are responsive of bank loans, less awareness about other financial institutions. Overall possess low financial skills which reflected in deficient record keeping, poor cash management, improper savings habits, less awareness on financial products. Research suggested that to create more awareness and financial alternatives for well-being of micro Entrepreneurs.

Lavanya Rekha Bahadur (2015), analysed two pillar of the economy: financial literacy and financial inclusion and its current scenario as well as common people perspective about financial instruments. Data collected from 202 Mumbai and Thane district individuals. It is found that level of financial literacy is very low and suggested to encourage financial literacy from school level, national level programs and seep effort to the grass root level.

K N Narendra (2014), discussed the role of Financial Planner in the era of overloaded information. Study suggested that the

persistent and prolonged efforts by all stake holders to educate and bring down revolution in India.

Sumit Agarwal et al. (2010), examined investment behaviour, liability choice, risk tolerance and insurance usage of 1,694 Hyderabad respondents who are interested in personal finance. Data for analysis provided by Investment Yogi Financial Advisory Services. Majority of respondents are financially literate they answered the numeracy, inflation and diversification questions correctly. Study found that majority of males with higher education level and aggressive investors are more literate than females and less educated.

Ratna Achuta Paluri (2016), analysed factors influencing financial attitudes of Indian women to classify Indian women based on attitude with 9 variables: anxiety, interest in financial issues, intuitive decisions, precautionary savings, free spending, materialistic and fatalistic attitude, propensity to plan for long and short term financial goals. Study used confirmatory factor analysis to cluster the women of Nashik city. Based on cluster analysis classified customer into judicious consumers, conservative consumers, acquisitive consumers and unsure consumers. It is found that only one third of respondents did not buy any financial products, most preferred products were fixed deposit and insurance. And also found that cluster 1 followed by cluster 3 seems to be attractive for marketers, cluster 4 is unattractive. V

Mathavathani et al. (2014), focused on financial literacy of rural women in Tamilnadu based on 3 factors: knowledge, behaviour and attitude. It is found that very low financial literacy among rural women. Puneet

Bhushan et al. (2013), conducted survey of 516 salaried individuals of Himachal Pradesh using multistage sampling to check the financial literacy level. It is found that overall literacy level is low and financial literacy level of male is more than females. Level of education, income, nature of employment and place of work influence on financial literacy whereas geographical region does not influence on financial literacy.

Harsha V Jariwala (2014) assessed the financial literacy level of individual investors in Gujarat state, India and its effect on investment decision by considering 44 variables. The research found that 39.2% of 285 respondents are higher level of financial literacy and found that financial literacy does have statistically significant effect on investment decision.

Priyanka Agarwal, et al. (2015), emphasis on financial literacy importance for managing finances and investment pattern of both teaching and non-teaching female staff (20 teaching and 20 non-teaching female staff) in education sector of Jhansi District. It is found that most of working women are aware of Investment Avenue and invest their savings in bank and post office fixed deposit.

### 3. RESEARCH OBJECTIVES

1. To identify major determinants of the Financial Literacy
2. To evaluate impact of the various determinants on level of financial literacy
3. To Study nature and intensity of the relationship between Financial Literacy and other independent determinants.

### 4. RESEARCH HYPOTHESIS

**H0:** There is no significant influence of all the determinants on

level of financial literacy

**H1:** There is significant influence of all the determinants on level of financial literacy.

### 5. RESEARCH METHODOLOGY

Research Design: Descriptive and Causal Design

Contact Method: Personal Interview survey

Sample Size: 520

Sampling Method: Non Probability convenience sampling

Research Instrument: 5 Point Liker Scale Questionnaire

### 6. Data Analysis And Interpretation

In the next part of the study carry forward same hypothesis using multiple regression. All six factors are inserted as independent variables combined and Financial Literacy inserted as the dependent variable. Mean score was taken as the representative value for that particular variable.

Person correlation was performed first to make base for the multiple regression. Table provides the Coefficient of relation between all independent variables and dependent variable.

Correlation								
	Financial Literacy	Financial Attitude	Financial Behaviour	Financial Influence	Financial Awareness	Financial Knowledge	Financial Aptitude	
Financial Literacy	1.000	.912	.894	.945	.886	.901	.873	
Financial Attitude	.912	1.000	.938	.967	.982	.983	.967	
Financial Behaviour	.894	.938	1.000	.973	.986	.963	.979	
Financial Influence	.945	.967	.973	1.000	.977	.967	.966	
Financial Awareness	.886	.982	.986	.977	1.000	.973	.965	
Financial Knowledge	.901	.983	.963	.967	.973	1.000	.985	
Financial Aptitude	.873	.967	.979	.966	.965	.985	1.000	

N= 400, All Correlation are statistically significant at 5% level of significant

Coefficient of correlation was positive for all the variables and varied between 0.963 to 0.986. All coefficient of correlation were statistically significant at 5% level of the significant. Correlation summary provides the good base for the multiple regression.

The model summary of Financial Literacy and all six explored variables is given in Table and it shows the coefficient of determination ( $R^2$ ) under model which is 0.977, which meant all six factors combine explained 97.7 percent of the variations in Financial Literacy.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.987 <sup>a</sup>	.977	.956	.24958	.897	623.207	6	143	.000

a. Predictors: (Constant), Financial Aptitude, Financial Influence, Financial Behaviour, Financial Awareness, Financial Attitude, Financial Knowledge

b. Dependent Variable: Financial Literacy

ANOVA <sup>a</sup>		Sum of Squares	Df	Mean Square	F	Sig.
Model						
1	Regression	186.213	6	32.37	623.207	.000 <sup>b</sup>
	Residual	24.823	394	.062		
	Total	221.036	399			

a. Dependent Variable: Financial Literacy

b. Predictors: (Constant), Financial Aptitude, Financial Influence, Financial Behaviour, Financial Awareness, Financial Attitude, Financial Knowledge

Model	Coefficients <sup>a</sup>						
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-.125	.065		-1.933	.054		
Financial Attitude	.202	.019	.228	10.796	.000	.449	2.227
Financial Behaviour	.100	.017	.102	5.773	.000	.643	1.556
Financial Influence	.291	.015	.346	19.248	.000	.622	1.609
Financial Awareness	.123	.013	.185	9.373	.000	.516	1.938
Financial Knowledge	.203	.017	.271	12.194	.000	.406	2.464
Financial Aptitude	.118	.019	.138	6.367	.000	.426	2.346

a. Dependent Variable: Financial Literacy

- Harsha V Jariwala, Analysis of Financial Literacy Level of Retail Individual Investors of Gujarat State and Its Effect on Investment Decision, Journal of Business & Finance Librarianship, November 2014, PP. 133-158.
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The ANOVA Table is used to assess the overall significance of the regression model. In Table, the F-value (623.207) and the p-value is 0.000. This meant that model is significant as p-values less than 0.05 at  $\alpha = 0.05$  level. It further said that explored six variables significantly contribute in the variation of the Financial Literacy. Further Table provides the coefficient of the model. According to the table it can be said that all explored factors is significantly influence on the Financial Literacy.

## 7. CONCLUSION

All factors are statistically significant as the p value of all the factors are less than 0.05. Among all the factors Financial Influence, Financial Knowledge and Financial Attitude are mainly contributors which influence mostly in the Financial Literacy. Other factors are also statistically significant but the intensity of the influence is low compare to other factors. Model can be written as:

$$\text{Financial Literacy} = -.125 + .202 \text{ (Financial Attitude)} + .100 \text{ (Financial Behaviour)} + .291 \text{ (Financial Influence)} + .123 \text{ (Financial Awareness)} + .203 \text{ (Financial Knowledge)} + .118 \text{ (Financial Aptitude)}$$

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